

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-11 OES-09
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 PA-01 /129 W
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R 270955Z JUL 78
FM USLO RIYADH
TO SECSTATE WASHDC 618
INFO AMEMBASSY ABU DHABI
AMEMBASSY AMMAN
USINT BAGHDAD
AMEMBASSY CAIRO
AMCONSUL DHAHRAN
AMEMBASSY DOHA
AMEMBASSY KUWAIT
AMEMBASSY MANAMA
AMEMBASSY MUSCAT
AMEMBASSY SANA
AMEMBASSY TEHRAN
AMEMBASSY JIDDA

C O N F I D E N T I A L RIYADH 623

E.O. 11652: GDS
TAGS: EFIN, SA
SUBJ: SAUDI RESPONSE TO BUDGET DEFICIT

REF: (A) JIDDA 09076, (B) RIYADH 605

1. THE EMBASSY HAS PREVIOUSLY REPORTED LIKELIHOOD OF SAG DEFICIT THIS FISCAL YEAR. USLO HAS LEARNED THAT IN REVIEWING THE BUDGET THE COUNCIL OF MINISTERS WAS FACED WITH A MUCH LARGER PROSPECTIVE DEFICIT WHICH IT AVOIDED ONLY BY REQUIRING ALL MINISTRIES TO USE ONLY TWO-THIRDS OF WHAT THE MINISTRY OF FINANCE HAD AUTHORIZED THEM TO SPEND. THIS YEAR'S BUDGET WAS BASED ON THAT REDUCED TOTAL.
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AS A RESULT EACH MINISTRY HAS BEEN REASSESSING ITS PROGRAMS TO IDENTIFY WHICH PROJECTS CAN BE CUT. IN THE MEANTIME PROJECTS HANG IN LIMBO, FUNDS HAVE BEEN FORZEN, AND A MOOD OF UNCERTAINTY PREVAILS AMONG ADVISORS AND CONTRACTORS.

2. THE SHORTFALL APPEARS TO HAVE CAUGHT THE SAG COMPLETELY BY SURPRISE, LARGELY BECAUSE THE MINISTRY OF FINANCE HAD NO WAY TO

SYSTEMATICALLY RELATE FUNDING DECISIONS TO ANTICIPATED REVENUES. REQUESTS FROM MINISTRIES WERE EXAMINED AND APPROVED INDIVIDUALLY WITHOUT ANY REFERENCE TO AN OVERALL SPENDING CEILING. ONLY AFTER THE MINISTRY OF FINANCE MADE BINDING FUNDING COMMITMENTS TO OTHER MINISTRIES DID IT ADD UP THE TAB. TO ITS HORROR IT FOUND THAT NOT ONLY WAS PROJECT FUNDING 40 PERCENT; IT WAS FAR IN EXCESS OF PROJECTED REVENUES BASED ON THE SAUDI OIL PRODUCTION CEILING OF 8.5 MILLION B/D. FINANCE PRESENTED THE FIGURES TO THE COUNCIL OF MINISTERS AND ASKED FOR HELP. THE COUNCIL OF MINISTERS RESPONDED WITH A DECREE CUTTING PROJECT EXPENDITURES BY 33 PERCENT, THE AMOUNT FINANCE CALCULATED NECESSARY TO WIPE OUT THE DEFICIT.

3. THE DECREE CAME OUT IN MID-JUNE AND OFFICIALS ARE STILL HAVING DIFFICULTY IMPLEMENTING IT. FIRST, MANY SIMPLY DELAYED TAKING ACTION BECAUSE THEY DID NOT BELIEVE THE CUT WOULD BE ENFORCED. THEN QUESTIONS

AROSE AS TO WHAT BASE THE 33 PERCENT CUT WAS TO BE IMPOSED ON. BUT MOST IMPORTANT, MINISTRIES ARE THROWN BACK INTO THE PLANNING STAGE SINCE THEY MUST REASSESS PRIORITIES AND TRY TO MAINTAIN THE OUTLINES OF PROGRAMS THAT WERE MEANT TO BE MUCH LARGER. THE MINISTRY OF AGRICULTURE AND WATER HAS BEEN HARD HIT BECAUSE IT HAD RECEIVED THE BIGGEST PERCENTAGE INCREASE AND NOW MAY HAVE TO DISMANTLE AN INTEGRATED TEAM OF SPECIALISTS WHO CANNOT BE EASILY REASSEMBLED. WE HAVE HEARD RUMORS THAT FUNDING FOR SEVERAL OF THE REGIONAL ELECTRIFICATION PROJECTS WAS IN DOUBT AND HAVE BEEN TOLD BY ARAMCO THAT IT WAS ABLE TO BREAK LOOSE FUNDS FOR THE EASTERN PROVINCE
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ELECTRIFICATION SCHEME ONLY WITH DIFFICULTY. FINALLY, SEVERAL CORPS OF ENGINEERS PROJECTS WITH THE MINISTRY OF DEFENSE HAVE BEEN UNEXPECTEDLY DEFERRED (SEE REF B) AND THE CORPS HAD TO APPLY UNPRECEDENTED PRESSURE TO GET A COMMITMENT ABOUT WHICH PROJECTS WERE FUNDED.

4. ONLY AFTER GETTING THE COUNCIL OF MINISTERS TO ACT DID THE MINISTRY OF FINANCE REALIZE THAT THE CUT IT HAD RECOMMENDED TO THE COUNCIL WAS BASED ON WHAT SHOULD HAVE BEEN AN OBVIOUS OVERSIGHT; DUE TO SLACK DEMAND OIL LIFTINGS WERE NOT 8.5 MILLION B/D BUT ONLY 7.2. THE MINISTRY IS UNDERSTANDABLY RELUCTANT TO GO BACK TO THE COUNCIL OF MINISTERS AND HAS RESIGNED ITSELF TO DRAWING FROM SAMA HOLDINGS ABROAD IF AN ACTUAL DEFICIT MATERIALIZES. THAT DEFICIT COULD BE AS MUCH AS 5 BILLION DOLLARS ASSUMING THAT OIL LIFTINGS STAY AT 7.2, OPEC PRICES DO NOT RISE, AND EVERY RIYAL THAT WAS BUDGETED IS SPENT. IN FACT OVERALL SPENDING LAST YEAR WAS 96 PERCENT AND THERE IS A FEELING IN THE MINISTRY OF FINANCE THAT OPEC PRICES WILL SOON BE INCREASED BY ABOUT 5 PERCENT. BUT EVEN THAT WOULD COVER ONLY FOUR MONTHS OF THE DEFICIT, OTHER FACTORS CONSTANT.

5. THE MINISTRY OF FINANCE IS UNPREPARED FOR THE NEW AGE OF LIMITS IN YET ANOTHER RESPECT; IT HAS NO MECHANISM FOR REGULATING CASH

FLows so that funds are not spent faster than oil is pumped.
legally a ministry may draw its entire allocation at the beginning
of the year. while this is not likely to be a problem this year
because of funding delays it indicates that sag is going to have
to hire budget consultants as well as planners.

6. COMMENT: THE INCOME CONSTRAINT ON NATIONAL DEVELOPMENT HAS BEEN
FORCEFULLY BROUGHT HOME TO THE COUNCIL OF MINISTERS. THE FACT THAT
THE SAG WAS SO SURPRISED AND REACTED SO STRONGLY SUGGEST THAT THERE
MAY SOON BE POLICY SHIFTS ON SUCH ISSUES AS OPEC PRICING.
GRANINGER

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